

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616,
TROY, KANSAS

FINANCIAL STATEMENT
(with Independent Auditors' Report thereon)

For the Year Ended June 30, 2014

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Doniphan County Education Cooperative No. 616
Troy, Kansas

REPORT ON THE FINANCIAL STATEMENT

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Doniphan County Education Cooperative No. 616, Troy, Kansas (the Cooperative), as of and for the year ended June 30, 2014 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Cooperative to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Cooperative as of June 30, 2014, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Cooperative as of June 30, 2014, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

REPORT ON REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures - actual and budget, individual fund schedules of regulatory basis receipts and expenditures - actual and budget, and schedule of regulatory basis receipts and disbursements - agency funds (Schedules 1, 2, and 3 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

REPORT ON OTHER SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

REPORT ON SUMMARIZED COMPARATIVE INFORMATION

The 2013 Actual column presented in the individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedule 2 as listed in the table of contents) is also presented for comparative analysis and is not a required part of the 2013 basic financial statement upon which we rendered an unmodified opinion dated September 18, 2013. The 2014 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://da.ks.gov/ar/muniserv/>. Such 2014 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 basic financial statement. The 2014 comparative information was subjected to the auditing procedures applied in the audit of the 2014 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2014 basic financial statement or to the 2014 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2014 comparative information is fairly stated in all material respects in relation to the 2014 basic financial statement as a whole, on the basis of accounting described in Note 1.

KRAMER & ASSOCIATES CPAs, LLC

Kramer & Associates CPAs, LLC
Leavenworth, Kansas
November 19, 2014

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS
Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended June 30, 2014

Funds	Beginning unencumbered cash balance	Prior year cancelled encumbrances	Receipts	Expenditures	Ending unencumbered cash balance	Add encumbrances and accounts payable	Ending cash balance
Governmental type funds:							
General fund	\$ 1,038,305	\$ -	\$ 1,920,630	\$ 1,860,323	\$ 1,098,612	\$ -	\$ 1,098,612
Special purpose funds:							
Grant funds	<u>-</u>	<u>-</u>	<u>331,138</u>	<u>331,138</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total reporting entity (excluding agency fund)	<u>\$ 1,038,305</u>	<u>\$ -</u>	<u>\$ 2,251,768</u>	<u>\$ 2,191,461</u>	<u>\$ 1,098,612</u>	<u>\$ -</u>	<u>\$ 1,098,612</u>

Composition of cash:

Checking	\$ 1,098,112
Checking - agency accounts	43,829
Petty cash	<u>500</u>
Total cash	1,142,441
Less agency funds	<u>(43,829)</u>
Total reporting entity (excluding agency funds)	<u>\$ 1,098,612</u>

The notes to the financial statement are an integral part of this statement.

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS
Notes to the Financial Statement
For the Year Ended June 30, 2014

1. Summary of significant accounting policies

a. Municipal financial reporting entity

Doniphan County Education Cooperative No. 616, Troy, Kansas, (Cooperative) is a municipal corporation governed by a six-member board. This financial statement presents Doniphan County Education Cooperative No. 616, Troy, Kansas, (the primary government). The Cooperative serves three Unified School Districts: USD No. 111 Doniphan West, USD No. 114 Riverside, and USD No. 429 Troy, in the area of Special Education Services. There are no related municipal entities.

b. Basis of accounting

Regulatory basis of accounting and departure from accounting principles generally accepted in the United States of America. The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities, or deferred inflows or outflows, other than those mentioned above.

The Cooperative has adopted a resolution in accordance with K.S.A. 75-1120a (c) waiving the requirement for application of generally accepted accounting principles and allowing the Cooperative to use the regulatory basis of accounting.

c. Cash and investments

Cash consists of checking and savings accounts.

Cash balances in all funds are considered in determining the amount to be invested and further, unless specifically designated, all investment income is credited to the general fund.

1. Summary of significant accounting policies (continued)

d. Regulatory basis fund types

The following types of funds comprise the financial activities of the Cooperative for the year ended June 30, 2014:

General fund - the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special purpose fund - used to account for the proceeds of specific tax levies and other specific revenue sources (other than capital projects and tax levies for long-term debt) that are intended for specified purposes.

Agency fund - used to report assets held by the Cooperative in a purely custodial capacity.

2. Stewardship, compliance, and accountability

a. Budgetary information

The Cooperative is not subject to statutory budget requirements. The Cooperative prepares an expenditure budget for operating purposes only.

b. Compliance with finance-related legal and contractual provisions

The District's bank deposits were under-secured at Bendena State Bank during the month of June (K.S.A. 9-1402).

Management is not aware of any other material violations of finance-related legal and contractual provisions for the period covered by audit.

3. Deposits and investments

As of June 30, 2014, the Cooperative had no investments.

K.S.A. 9-1401 establishes the depositories which may be used by the Cooperative. The statute requires banks eligible to hold the Cooperative's funds have a main or branch bank in the county in which the Cooperative is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the bank to pledge securities for deposits in excess of FDIC coverage. The Cooperative has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Cooperative's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Cooperative has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the Cooperative may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. State statutes require the Cooperative's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at June 30, 2014.

At June 30, 2014, the Cooperative's carrying amount of deposits was \$1,142,441 and the bank balance was \$1,352,627. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$1,102,627 was collateralized with securities held by the pledging financial institution's agents in the Cooperative's name.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Cooperative will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

4. Long-term debt

a. Changes in long-term liabilities for the Cooperative for the year ended June 30, 2014, were as follows:

Issue	Interest rate	Date of issue	Amount of issue	Date of final maturity	Balance beginning of year	Additions	Reductions/ payments	Balance end of year	Interest paid
Capital leases:									
2008 Ford Escape	4.00%	08/09/2010	\$16,900	08/09/2013	\$ 986	\$ -	\$ (986)	\$ -	\$ 5
Total contractual indebtedness					<u>\$ 986</u>	<u>\$ -</u>	<u>\$ (986)</u>	<u>\$ -</u>	<u>\$ 5</u>

b. Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	Year ended June 30,								
	2015	2016	2017	2018	2019	2020-2024	2025-2029	2030-2034	Total
Principal:									
Capital lease:									
2008 Ford Escape	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total principal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Interest:									
Capital lease:									
2008 Ford Escape	-	-	-	-	-	-	-	-	-
Total interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total principal and interest payments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

5. Interfund transfers

There were no operating transfers for the year ended June 30, 2014.

6. Defined benefit pension plan

a. Plan description

The Cooperative participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

b. Funding policy

K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate of 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. Member employees' contributions are withheld by their employer and paid to KPERS according to the provisions of section 414(h) of the Internal Revenue Code.

The State of Kansas is required to contribute the statutory required employers share. Kansas currently contributes 10.37% of covered payroll for fiscal year 2013, and 11.12% of covered payroll for fiscal year 2014.

7. Other long-term obligations from operations

a. Other post employment benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Cooperative makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the Cooperative under this program.

7. Other long-term obligations from operations (continued)

b. Compensated absences

Teachers are granted ten sick days per year and are allowed to accumulate unused sick leave to a maximum of 75 days. Teachers are also granted two personal leave days during each school term. Only one personal day per year will be allowed to convert to sick leave. If a teacher has accumulated more than 75 days of sick leave, the teacher is paid for days over 75 at the rate of \$40 per day. When a tenured teacher leaves the Cooperative, the teacher is paid for all accumulated sick leave at a rate of \$40 per day. Retiring teachers are paid for all accumulated sick leave at a rate of \$50 per day.

Paraprofessionals are granted seven sick days per school year and are allowed to accumulate unused sick leave to a maximum of 15 days. One of the seven sick days granted each year may be used as a personal day.

8. Commitments

The Cooperative leases a building in Troy, Kansas for office space. The term of the lease is for a period of one year commencing August 1 and terminating July 31 of the subsequent year. The required monthly payment is \$1,060.90 with an automatic 3% increase per year for each and every year that this lease remains in force. The lease is renewed annually.

**REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION**

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended June 30, 2014

Funds	Original budget	Adjustment for qualifying budget credits	Total budget for comparison	Expenditures chargeable to current year	Variance - over (under)
Governmental type funds:					
General fund	\$ 3,026,743	\$ -	\$ 3,026,743	\$ 1,860,323	\$ 1,166,420

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS
GENERAL FUND*

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended June 30, 2014

(With Comparative Actual Totals for the Prior Year Ended June 30, 2013)

	Prior year actual	Current year		
		Actual	Budget	Variance - over (under)
Cash receipts				
Participating districts' contributions	\$ 539,999	\$ 540,000		
State aid:				
Special education services aid passed				
through participating districts	1,401,519	1,334,934		
Federal aid:				
Medicaid reimbursement	26,120	32,026		
Interest	5,357	4,163		
Revenue from other local source	15,762	9,507		
Total cash receipts	1,988,757	1,920,630		
Expenditures				
Instruction	1,157,142	1,152,381	\$ 1,589,393	\$ 437,012
Student support services	331,153	288,176	576,919	288,743
Instructional support staff	50,619	52,341	448,145	395,804
General administration	244,814	282,286	249,786	(32,500)
Operations and maintenance	15,639	17,933	30,000	12,067
Student transportation services	74,221	67,206	132,500	65,294
Adjustment for qualifying budget credits:				
Reimbursements	-	-	-	-
Total expenditures	1,873,588	1,860,323	\$ 3,026,743	\$ 1,166,420
Cash receipts over (under) expenditures	115,169	60,307		
Unencumbered cash, beginning of year	923,136	1,038,305		
Unencumbered cash, end of year	\$ 1,038,305	\$ 1,098,612		

* This fund is not statutorily required to be budgeted. See Note 2a.

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS
 GRANT FUNDS*
 Schedule of Receipts and Expenditures
 Regulatory Basis
 For the Year Ended June 30, 2014
 (With Comparative Actual Totals for the Prior Year Ended June 30, 2013)

	Prior year actual	Current year actual
Cash receipts		
Federal aid:		
Early childhood aid	\$ 22,175	\$ 22,171
Title VI-B	<u>314,985</u>	<u>308,967</u>
Total cash receipts	<u>337,160</u>	<u>331,138</u>
Expenditures		
Instruction	<u>337,160</u>	<u>331,138</u>
Total expenditures	<u>337,160</u>	<u>331,138</u>
Receipts over (under) expenditures	-	-
Unencumbered cash, beginning of year	<u>-</u>	<u>-</u>
Unencumbered cash, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

* This fund is not statutorily required to be budgeted. See Note 2a.

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS
 Agency funds
 Summary of Receipts and Disbursements
 Regulatory Basis
 For the Year Ended June 30, 2014

	Beginning cash balance	Receipts	Disbursements	Ending cash balance
Agency fund:				
Flexible Spending	\$ 41,268	\$ 31,743	\$ 29,182	\$ 43,829
Total agency fund	\$ 41,268	\$ 31,743	\$ 29,182	\$ 43,829

**OTHER
SUPPLEMENTARY
INFORMATION**

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS
Schedule of Expenditures of Federal Awards
Regulatory Basis
For the Year Ended June 30, 2014

Federal Grantor/ pass-through grantor/ program title	Federal CFDA number	Program or award amount	Beginning unencumbered cash balance	Receipts	Expenditures	Ending unencumbered cash balance	Add encumbrances and accounts payable	Ending cash balance
<u>U.S. Department of Education</u>								
Passed through Kansas Department of Education:								
Special education cluster:								
Special education grants to states	84.027	\$ 308,967	\$ -	\$ 308,967	\$ 308,967	\$ -	\$ -	\$ -
Special education - preschool grants	84.173	<u>22,171</u>	<u>-</u>	<u>22,171</u>	<u>22,171</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Education		<u>331,138</u>	<u>-</u>	<u>331,138</u>	<u>331,138</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total federal assistance		<u>\$ 331,138</u>	<u>\$ -</u>	<u>\$ 331,138</u>	<u>\$ 331,138</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>